



General Liability Allocation Methodology

AUGUST 8, 2019

Step 1: Actuarial Study to Project Annual Loss

- Independent study that projects losses based on experience and actuarial factors
- Looks at the pattern of claims in the future and losses in the future from claims made in the claim year
- A loss for a claim made in the insured year is the projected cost over all years going forward
 - Looking at the future cost of all claims that occur in the claim (funded) year
 - Total all claims payout in any year is not relevant in and of itself
- Conducted at least every two years
- Looks at experience since 1998
- Most recent study is November 2018



Step 2: Identify Confidence Levels for that Loss

- Actuarial study projects losses in multiple confidence levels
- Confidence level percentage is the probability that actual cost (of losses) will be at or less than the indicated (projected) cost
- Lowest normally used confidence level is 50% - the expected cost
A 50% chance losses will be higher or lower than the indicated amount
- “Marginally acceptable” per actuary is 70% (per actuary)
A 70% chance losses will be at or lower than indicated amount
- Recommended range is 75% to 85%
- Conservative level is 90%



Step 3: Choose a Confidence Level to Identify Loss

- Most recent study (Nov 2018 for FY 20)
 - 50% = \$17.5 m (expected)
 - 70% = \$21.8 m
 - 75% = \$23.6 m
 - 80% = \$25.7 m
 - 90% = \$32.4 m
- In the recession years, the City used a confidence level of 50%
- A few years ago, the confidence level used was up to 70%-75%, but is now back down to 50%
- The Confidence level is translated to a rate based on \$100 of payroll



Step 4: Allocate Losses to Departments

- Allocation methodology by the independent actuary
- Allocation uses five-year loss history experience of department and also the city as a whole
- Losses are allocated to departments (by actuary) based on up to 75% department experience with the balance allocated based on city-wide experience. Generally, the larger the department (based on payroll), the more the actuary relies on departmental experience
 - Police = 75%
 - Fire = 62%
 - Public Works = 39%
 - Water = 30%
 - City Manager = 8%



Step 5: Uses Loss History Information to Allocate Confidence Level Cost to Departments

- Uses loss information to calculate a rate per \$100 of payroll by department
 - Police = \$4.20
 - Fire = \$1.90
 - Public Works = \$10.83
 - Water = \$3.78
 - City Manager = \$4.27
- Calculate charge to Departments: rate x projected payroll
 - Police = \$5,402,000
 - Fire = \$1,342,000
 - Public Works = \$3,278,000
 - Water = \$793,000
 - City Manager = \$184,000



Comments

Financial Management intends to review the general liability fund status and the liability cost allocations during FY 20

Questions?

